

LOCAL OWNERSHIP OPTIONS FOR CONVERSION OF JEA

This white paper addresses three options for consideration, each with significant advantages over the current JEA form. Three potential paths forward are envisioned that retain local control and maximize benefits for all local community stakeholders. All approaches expand engagement of local customers, employees, communities, businesses and educational institutions.

A **JEA Regional Community Infrastructure Collaborative (JEA-RCIC)** is a framework that can be implemented in one of the three following ways:

OPTION ONE – REGIONAL PUBLIC POWER DISTRICT STRUCTURE - Transform the current municipal model to one that is a regionally based Public Power system (spanning Duval, St Johns, Clay and Nassau Counties) with a revised Charter and governance structure to allow more flexibility and efficiency. This would be somewhat similar to Omaha Public Power District (OPPD) or the Nebraska Public Power District (NPPD) model. In this model the board structure would provide an independent local Governance structure. For example, it may consist of a nine -member board with 5 members elected by customers, 1 appointed by each County and 1 appointed by the Mayor of Jacksonville. This cross section of local community stakeholders and diversity of backgrounds and expertise will allow for greater innovation and enhanced business opportunity. A board Nominating Committee will develop guidelines with help from the Jacksonville University Public Policy Institute. Representation will reflect a mix of key stakeholder customer categories as well as local business and governance talent. This will yield an enhanced, recurring revenue stream to the City by the current formula of contribution in lieu of tax to a better transparent one based on a multiple of the tax rate that an investor owned utility would pay.

OPTION TWO – REGIONAL INFRASTRUCTURE COOP STRUCTURE –The Cooperative Advantage. Convert to a regional infrastructure cooperative maintaining local control and having customers as members to ensure that local goals are aligned and that benefits are achieved for customers as well the JEA.

Cooperative advantages include the following:

- 1) COOPs are member-centric, members are customers and customers are members.
- 2) Members locally elect the local Board
- 3) COOPs have 501 c12 tax exempt status under Internal Revenue Code
- 4) They qualify for FEMA reimbursements and receive other preferential rights including -
 - a. preferential purchases from Federal Power Marketing Authorities
 - b. exclusion from utility regulation under part II of the Federal Power Act
 - c. exclusion from regulation under the Communications Act of 1934
 - d. exclusion from state utility rate regulation

1

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Current Florida Statute has customer density limits that would restrict JEA from becoming a “rural electric coop”. This could be addressed by becoming a business infrastructure coop. This would provide most of the benefits of a coop with a few exceptions that are unique to rural electric coops. Changing the statute in the current political environment with utility deregulation in play would be virtually impossible.

Note: Utility or infrastructure coops of this size are not common in the US, however there are many other coop business ventures that are. For example. The agricultural coops of: Lake O’ Lakes, Ocean Spray and Blue Diamond all have revenues exceeding \$1 billion dollars. In 2018 Lake O’ Lake recorded revenues over \$15 billion dollars. These coops have provided stellar performance for their members and value for their customers. These three have different governance structures. Ocean Spray is a public company, while the others are privately held by their membership.

OPTION THREE – REGIONAL INFRASTRUCTURE EMPLOYEE STOCK OPTION PLAN (ESOP) - EQUITY BASED STRUCTURE. This will ensure employees are fully engaged and aligned with the success of JEA. Employees as owners enhances the organizational enthusiasm and incentive to succeed.

Each of the three options described above has the following advantages to key stakeholder groups:

Advantages

- Keep JEAs Federal and State Income tax exemption
- Keep JEA’s access to lowest cost capital markets debt
- These ownership structures better align employees, customers and community around organizational performance that provides mutual benefit. Because local ownership is the driver the employees and customers will create the most efficient organization with outstanding expense control generating margins to be re-invested in the company and the community in alignment with its stated goals.
- Community re-investment. Local ownership will be invested in the success of the community. As local business grows, JEA and businesses benefit. COOPs return excess margins locally to its member-customers. A Municipal or ESOP instead will re-invest its excess margins in the business to benefit its growth and services in order to further grow its business.
- Virtually all profits or excess margins get reinvested locally.
- COOPs qualify for FEMA reimbursements and receive other preferential rights. See other advantages above
- See below infographic for added advantages of the ESOP model.

2

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The Economic Power of Employee Ownership

NCEO

Employee ownership keeps businesses and jobs in state.

Employee-owners were 4x less likely to be laid off during the recent recession.

ESOP companies are 25% more likely to stay in business.

Unemployment Office

Employee ownership builds community wealth.

Employees at ESOP companies have 2.3x greater retirement accounts.

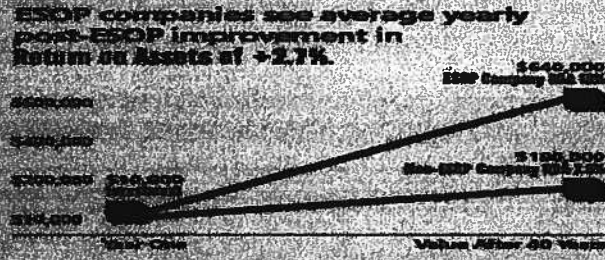
Employees at ESOP companies receive 5% - 12% more in wages.

Employee ownership improves business performance.

Productivity improves by 4% - 5% on average in the year an ESOP is adopted.

HIRING HIRING HIRING

Over a 10-year period, ESOP companies have 25% higher job growth than comparable companies without an ESOP.



ESOP companies increased sales by about 2.3% - 2.4% per year.

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Impacts to JEA

- Keep JEAs Federal and State Income tax exemption
- Keep JEA's access to lowest cost capital markets debt
- Public Power qualifies for FEMA reimbursements and receive other preferential rights.
- COOPs qualify for FMEA reimbursements and receive other preferential rights. See other advantages above
- Reinvestment of margins into local infrastructure to support customer existing and new business needs which will include guidance from business advisory groups.
- Corporate performance will excel as a result of most employees being customers and member/owners. Business owners are fully invested in their businesses.

Impacts to COJ

- COOPs qualify for FEMA reimbursements and receive other preferential rights. See other advantages above
- Enhanced investment in local infrastructure to support business growth
- Enhanced economic development activities

Consumer impacts

- See other advantages above, plus
- Input into utility planning from residential, commercial and industrial advisory panels
- Targeted programs to support at-risk populations with efficiency services

Other key considerations

- See other advantages above, plus
- Support and follow the business and environment friendly Climate Leadership Council <https://www.clcouncil.org/> to facilitate economic growth and improving the quality of the local and global environment and business
- Expanded volunteer outreach to the community. With local ownership there is greater motivation to support local non-profits and educational entities, including but not limited to STEM education, etc.
- Provide funding for local infrastructure innovation to universities and business incubators for core infrastructure as well as end use cases that enhance business performance.

4

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Financing expertise and experience can come from potential collaborators for a to transformation of JEA, such players as:

- Bridgewater Associates <https://www.bridgewater.com/>
- Berkshire Hathaway - <http://www.berkshirehathaway.com/>
- The Carlyle Group - <https://www.carlyle.com/>
- National Rural Coop Finance Corporation (CFC) <https://www.nrucfc.coop/>
- National Coop Bank - <https://www.ncb.coop/>
- CoBank - <https://www.ncb.coop/>
- Numerous others TBD

This table illustrates how local ownership options might be scoped out in a potential response to JEAs Intent to Negotiate

To achieve the goals of outlined in the ITN:

This proposal is a fully integrated, forward looking proposal that incorporates the community's experts, businesses and institutions to advance the overall success of the region.

- A. By using local professionals and leadership and with a local governance this model is more fully aligned with the goals of the customers, employees and the economic development of the region.
- B. JEA will expand its current business model to offer products, services, and programs to enhance the value of the existing utility business while offering high-value enhancements in product offerings and resiliency to JEA's customers.

These opportunities will include:

- C. Creating a distributed generation business linked to regional growth patterns to serve new Developments of Regional Impact (DRIs)
- D. Facilitating adoption of renewables across rate classes via a combination of utility owned, customer owner, customer leased, Purchased Power Agreements
- E. Creating an electrification business (appropriate fuel-switching (e.g., port and public vehicle fleet electrification, electric vehicle charging stations)

5

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- F. Providing premium services - distributed water treatment, microgrids, storage assets for customers (data centers, hospitals, gas stations, military, etc.)
- G. Providing gas services to Jacksonville area. Natural, propane and LNG services.
- H. **Asset Optimization** via a state-of-the-art, data driven Total Asset Management Plan (TAMP) to gain the greatest value from all significant assets to ensure the local owners benefit from the owned assets. Significant Assets value will be periodically reviewed to determine value yield in accordance with Return On Asset (ROA) terms as well as strategic value for the community. Low value and "lazy assets" will be evaluated for either activation or potential liquidation. No strategic asset will be liquidated.
- I. If desired by JEA, New Solutions for Business L.L.C. will provide as an alternative to the local ownership models a Performance Based Operating Agreement (PBOA) to accelerate funding to the JEA and City of Jacksonville while enhancing the performance of the utility and moving JEA down a strategic path to ensure relevance to all its key stakeholders.

Experience, knowledge, skills, and abilities for owning, operating, and managing electric generation, transmission, distribution, and water systems or other complex business entities is fully embedded in the JEA today.

- A. The JEA core professionals, field and customer service staff will continue manage operations of the utility. They have consistently delivered high level performance as is described in the ITN, such as JD Power scores, top quartile, etc.
- B. **Multiple decades of experience and expertise** is demonstrated by the recognition and awards they have achieved.
- C. To this add the recruited talent as well as a retired executive and professional pool and advisory panels.
- D. Corporate culture demonstrating a long-term commitment to operations;
- E. Strong focus on maintaining reliability and minimizing time of disruptions;
- F. Focus on maintaining rate stability for customers, as illustrated through historical performance. The JEA rate history demonstrates rate stability. Over the last 4 decades has learned from economic cycles, fuel market disruptions and customer feedback how to smooth needed rate changes in order to not disrupt customer budgets and learned how NOT to create rate shock.

6

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G. As local owners the employees have a vested interest in providing excellent service to members and in supporting member solutions and member success

H. In addition, New Solutions for Business, L.L.C. has a network of seasoned utility professionals it can tap representing decades of experience to fill key positions when needed.

Economic Development and Benefits to Jacksonville

Commitments to the City of Jacksonville and economic development and job creation initiatives for Jacksonville

- A. Our team will review and refresh existing economic development rates with input from impacted customers and local stakeholders
- B. Our team will work collaboratively with the Regional Chamber in their effort to both grow existing businesses as well as attract new high paying jobs to the region
- C. The New JEA will aid in the funding of studies that provide mutual benefit to the JEA sales as well as job growth in the region, such as a new Target Industry Study, etc.
- D. Targeted industry analysis will drill down deeply to determine how local infrastructure can be used as a competitive advantage to those target industries. The JEA Regional Community Collaborative will test this in a build out infrastructure in a new Development of Regional Impact (e.g., Wildlight, Nocatee or a TBD) to advance and enhance job development opportunities.
- E. JEA key accounts will be reconfigured to support existing and new customers. They will study all infrastructure challenges faced by local business and formulate solutions that can be jointly implemented
- F. The new JEA will collaborate with the UNF SBDC and UNF College of Business Administration (COBA) as well as other entities to support new business development and entrepreneurship
- G. The new JEA will provide incentives for electro-technologies that enhance business efficiency and reduce their costs

Employee Retention and Benefits

Commitments to employee's match JEA's goals, the new JEA will:

7

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- A. Protect employee retirement benefits and offer new alternatives;
- B. Maintain comparable employee compensation and benefits for three (3) years and move toward market-based compensation
- C. Confirm funding of retention payments to all full-time employees of 100% of current base compensation, as provided in the Employee Protection and Retention Agreement approved by the Board of Directors on July 23, 2019
- D. Performance compensation will be enhanced based on the model chosen. Employees will have a greater share of performance gains from the margins generated.

Innovation Plan

- A. The following innovative services or investments will leverage the tangible and intangible assets of JEA to:
 - 1. Position the business for the future: UNF- COBA, engineering
 - 2. Create new revenue channels; UNF Entrepreneurship program
 - 3. "Future-proof" the utility business. Separately, Respondents only interested in providing
- B. Incentives for innovation will support the following
 - 1. Innovative Infrastructure grants to Northeast Florida Universities
 - 2. Energy, water, infrastructure incubator at UNF
- C. Create independent entities to do rapid prototyping of new ideas from above and launch pilots to test new ideas prior to scaling up programs.
- D. Smart Grid approach will include the ability to manage transactive energy. The evolving smart grid, with increased use of renewable energy generation and distributed energy management technologies, offers the potential for significant efficiency improvements through market-based transactive exchanges between energy producers and energy consumers. To enable these sorts of exchanges, however, the modernized grid will require new economic tools and processes. "Transactive energy" is the broad term used to describe this new approach. JEA will enable to allow the dynamic balance of supply and demand across the entire electrical infrastructure using value as a key operational parameter.

8

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- E. AI strategy- AI represents a huge opportunity for automation within the company. Robotic Process Automation (RPA) will be used to reduce staffing needs. While this is being done retraining of staff will be done to minimize and staffing reductions. HR will develop in and out placement plan for staff not fitting into the new framework.
- F. Digital Strategy – the JEA will continue to digitize all non-digital assets to take full advantage of savings associated with digitizing. This will be done in a manner to protect those assets from cybersecurity treats
- G. Holistic solutions to sticky challenges will be addressed by cross functional innovation teams implementing technology integration and optimization opportunities. These teams will enable the integration of conventional and new technologies in innovative ways to capture gains that provide optimum performance results.
- H. Our Distributed Energy Strategy will include exploring the development of regional distributed energy parks in areas of new development like Nocatee, Wildlight, Cecil Commerce Center. Where permitted sites could combine natural gas simple or combined cycle units with possible chilled water and solar to support the growth of these Developments of Regional Impact.
- I. For profit subsidiaries will be created from the leading innovation projects or incubators. These companies' profits will accrue to the parent company (public power, coop or corporation). These companies will be given free rein to grow.

Environmental, Social and Governance

- A. Sustainability initiatives, renewable energy goals and the maintenance of an equitable workforce and management team.
- B. "Sustainable energy innovation is at the heart of solving many of the world's toughest challenges and is the key to tapping the full potential of energy as a contributor to future growth and prosperity" KPMG World Economic Forum. We will tap into the KPMG Global Energy CEO Forum to explore innovate ways to advance local sustainable energy initiatives. <https://home.kpmg/content/dam/kpmg/xx/pdf/2018/05/wef-accelerating-sustainable-energy-innovation.pdf>
- C. **Regional Community Infrastructure Collaborative will**
- D. JU Public Policy Institute for support of public outreach to
- E. US Green Building Council (USGBC) as collaborator

9

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- F. Collaborate of all water issues impacting the Community JU Marine Science Center
- G. Expanded renewal portfolio to follow the business and environment friendly Climate Leadership Council <https://www.clcouncil.org/> to facilitate economic growth and improving the quality of the local and global environment and business performance. This will include the expanded use of JEA's smart meter technology, demand rate experiments and the use of a portfolio approach to both utility scale and customer end-use systems to optimize performance while mitigating risks for all stakeholders.

Community Stewardship

- A. The New JEA will expand commitments to the City of Jacksonville and surrounding communities, including, but not limited to, volunteer activities, charitable contributions, an ongoing community relationship plan and comprehensive storm responsiveness plans
- B. The New JEA will seed a Charitable Donation Account (CDA) to fund a community charitable donation consistent with the JEA mission. These accounts are now allowable under the new Tax Act of 2017.
- C. Chamber - align Key accounts for existing and new customer fully with Chamber initiatives
- D. Community collaborative approach to engage with:
 - a. Work with Dupont Center -
 - b. UNITED WAY and Non-profit center
 - c. Community Foundation
 - d. Local universities
- E. Comprehensive storm plans will continue to grow in robustness through regional business continuity planning events. These events will have the goal to expand the logistics support networks in NE Florida.
- F. We will build on the strength of the regional logistics networks in combination with the flagship UNF Logistics program to further enhance business continuity planning in JEA and in NE Florida.

Financial Stability

Commitment to capital availability and growing investments in JEA and the region

- A. Capital availability will be addressed via enhanced renewal and replacement fund well beyond bond covenant requirement to ensure significant capital is internally generated.
- B. Funding sources include cash on hand, free cash flow from operations, new and re-structured bond issues, bank credit facilities, and private infrastructure investment funds.

10
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- C. External capital will be courted and used on select strategic capacity addition and investments. The new JEA will use capital based on model chosen (e.g., municipal bonds for a public power structure, but will also explore alternate capital sources allowable by law. This may include mini-Bonds, crowdfunding for select innovation projects, etc.
- D. Community growth will be a priority
- E. The NEW JEA corporate scorecard will be heavily weighted toward community re-investment. A balanced portfolio approach will be utilized to facilitate capital investments that generate the greatest reliability and return for key JEA stakeholders. We will utilize the Design Quality Framework to optimize future investments (DR Carl Spetzler American businessman, author, and academic. Known expert in the fields of decision quality and decision theory. Decision Quality: Value Creation from Better Business Decisions)
- F. The new management team will use proven tools such as, Accelerated Corporate Transformation to launch the new holistic community collaborative approach lead by professional management and guide by a new balanced scorecard to focus on key performance metrics to ensure ongoing and long term alignment and success for JEA and the community alike.

The Power of Partnerships

The RCIC proposes a series of community partners to provide mutual benefits to participating organizations. This includes, but is not limited to the following:

- Customer Advisory Councils- residential, commercial and industrial
- UNF College of Business, Engineering, Marine Science...Partnership
- JU Public Policy Institute – governance
- JU – river partnership via Marine Science Research Institute
- Edward Waters College – role TBD
- Chamber of Commerce - Community Infrastructure panel
- Leadership Jacksonville emerging leader think tank
- US Green Building Council (USGBC)
- Leadership Jacksonville
- First Coast Manufacturers Association (FCMA)
- National Association of Office and Industrial Properties (NAIOP)
- Institute of Real Estate Managers (IREM)

All customer classes will have advisory councils that will provide regular input to annual planning cycle to ensure the NEW JEA **Regional Community Infrastructure Collaborative** stays relevant to all customer classes

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Community engagement will come in many forms. It will include advisory panels, focus groups as well as ad hoc teams to focus on areas of common interest.

Risk Management

1. Our research shows the sale of JEA to an out of town, for-profit utility will take several years at minimum to be able to close. As an example of the many complex statutory and regulatory hurdles that would have to be cleared to close the sale of JEA - Florida Statutes Chapter 180. This Florida law requires extensive, expensive, time and resources consuming analysis, reporting, public hearings and more by JEA to be allowed to consider selling water and sewer assets to a for-profit utility. There are many more local, State and Federal requirements to be satisfied before such a sale could be closed. Industry experience shows this process will take several years at minimum with an uncertain conclusion. *Local ownership does not carry this cost and risk for JEA.*
2. As a means to mitigate the uncertainty associated with transition to a new ownership model by JEA, a Performance Based Operating Agreement (PBOA) could accelerate funding to the JEA and City of Jacksonville while enhancing the performance of the utility and moving JEA down a strategic path to ensure relevance to all its key stakeholders.

LOCAL OWNERSHIP BENEFITS

ADVANTAGES OF ELECTRIC COOPERATIVES

The Cooperative advantage - An electric cooperative is a private, non-profit company whose purpose is to deliver electricity to its customers or members. As a cooperative, they are required to fulfill two requirements including reinvesting revenue into their service area communities through stable rates and infrastructure or returning it to members through patronage capital. Cooperatives are also required to operate using a model of democracy.

MEMBER-OWNED AND OPERATED

Because electric cooperatives are member-owned and operated, democratic processes allow them a vote in annual cooperative board elections of which elected directors are nominated from among the members. Cooperatives also encourage members to voice their thoughts and ideas within the company. Members maintain equal status and work together for the good of the community and adhere to these seven guiding principles:

- Voluntary and open membership
- Democratic member control

12

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- Member economic participation
- Autonomy and independence
- Education, Training and information
- Cooperation among cooperatives
- Concern for community

Making the decision to join an electric cooperative rather than continue to rely on commercial electrical utilities is an advantageous one that begins benefiting members right away. Some of these member benefits include:

- Upon joining an electrical cooperative, you are considered a member and owner rather than a customer.
- Electric cooperatives are service focused. They provide electricity to rural areas while commercial utility companies are hesitant because they can make more profit on in-town homes and businesses.
- Cooperatives follow democratic processes and allow each of their members to vote in board member elections, participate in policy making and influence the company in sharing their ideas and concerns.
- Cooperatives are community focused and work to improve the sustainability and well-being of their local and surrounding communities.
- Electric Cooperatives return their revenues or margins to cooperative members in the form of capital credits.

PUBLIC POWER ADVANTAGES

Public power has many distinct characteristics that benefit consumers and contribute to community progress. They include:

- Lower rates. On a national average, public power rates are significantly lower than private company rates.
- Efficient Service. Driven by service at the lowest possible cost consistent with community aims and sound business practices, public power systems are directly responsible to their consumer-owners -- not private stockholders.
- Local Control. Every citizen is a utility owner, with a direct say in policies that affect rates and service.
- Commitment to conservation, safety and the environment. As arms of local government, public power systems work to meet long-term community goals.
- Economic development. Not-for-profit electricity attracts and maintains significant business and industrial development.
- Competition. Public power provides competition in what is essentially a monopolistic industry. Competition keeps rates lower and service better for consumers everywhere.

13

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Community Value Proposition

Local ownership options provide the maximum value to the Community. Alignment of goals of customers, employees, the City of Jacksonville, surrounding local governments, local businesses, local non-profits are much more fully aligned than investor owned or private equity models. All margins generated are re-invested in the regional infrastructure or returned to the community directly as dividends or in other means.

14

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12. CoBank - <https://www.ncb.coop/>
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18. Rick Mulaney, JU Public Policy Institute
19. Greg Starheim, CFC
20. KMPG, Global CEO Energy
21. <https://www.iea.com/strategicalternatives>
22. <https://www.co-oplaw.org/>
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24. PUBLIC UTILITY RESEARCH CENTER, <https://warrington.ufl.edu/public-utility-research-center/>

15
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